

Dialog Group (DLG MK)

2QFY26: Progressing Downstream+Upstream Operations

Highlights

- **1HFY26 core profit deemed above expectations.** The positive deviation on downstream segment profit momentum appears more sustainable and stronger vs our expectation. Plant Services is now operating at full steam for three Petronas turnarounds, while melamine plant completion was also revealed. The upstream division continued to progress well in existing projects. The Baram Junior Cluster (BJC) will have its first wellhead platform (Salbiah) targeted for Mar 26 sailaway.
- **Getting inactive equity stake in Cendramas PSC.** We view the earnings risk of Cendramas (formerly, the PM304 PSC to Petrofac) as low to Dialog, given that the PSC is already in production. Also, Petrofac had been financially embattled for years, yet the PM304 PSC (regarded as a non-core asset) still remains as the only international upstream portfolio until today. In view of the progress Dialog is making for its upstream mix, we upgrade earnings and target price to RM2.70. Maintain BUY.

2QFY26 Results

Year to 30 Jun (RMm)	2QFY26	qoq % chg	yoy % chg	YTD FY26 (RMm)	yoy % chg	Comments
						Note: Vopak's accounts is Year to 31 Dec
Revenue	756.3	15.1	11.2	1,413.3	7.5	
- Malaysia	502.6	16.0	29.4	936.0	21.6	Sustained midstream and better downstream
- Overseas	253.8	13.5	(13.0)	477.4	(12.4)	Better revenues- Thailand, other Asian regions
JV/associates	76.4	24.8	904.9	137.6	9.7	POOS income fell qoq from RM5m to RM4m
Finance costs	-14.6	9.7	19.6	-27.9	11.7	
PBT	174.8	8.6	(251.6)	335.8	Na	
- Malaysia	154.3	10.5	(205.6)	294.0	Na	
- Overseas	20.5	(3.8)	(33.5)	41.8	5.3	Thailand's profit doubled qoq to RM12m
PBT margin (%)	23.1%	-1.4%	40.1%	23.8%	3.8%	
Tax	-23.9	(18.8)	132.4	-38.8	119.1	
Net Profit	137.7	(1.6)	(206.4)	277.7	Na	2QFY25 was a kitchen sinking quarter
Core Profit	136.6	(16.2)	122.5	300.2	54.4	

Source: Dialog Group

Analysis

- **1HFY26 core profit beat street estimates, comprising 58% of our/consensus forecasts.** The positive deviation was due to better-than-expected midstream and downstream earnings from Malaysia operations. The downstream segment continued to chart profits, a result of cost optimisation initiatives, unlike one year ago when the segment suffered from losses due to legacy EPCC projects. Plant Services is now operating at full steam, driven by integrated planning for three Petronas turnarounds (commenced in late-25 and 2026). One key project completion was the RM724m works for Malaysia's first melamine plant for Petronas Chemicals. In collaboration with Technip (the lead EPCC contractor), the plant's original target completion was 2H24, but it achieved Ready For Startup Status on 30 Jul 25, and subsequently Technip announced it in Oct 25.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,158	2,171	2,302
EBITDA	788	550	674	676	778
Operating profit	455	220	305	279	358
Net profit (rep./act.)	580	304	518	542	577
Net profit (adj.)	595	456	518	542	577
EPS	9.5	7.2	8.2	8.6	9.2
PE	19.8	25.8	22.7	21.8	20.1
P/B	2.0	2.1	1.9	1.8	1.7
EV/EBITDA	11.3	15.7	16.0	15.2	14.6
Dividend yield	2.1	1.5	1.8	1.9	2.0
Net margin	18.4	12.1	24.0	24.9	21.3
Net debt/(cash) to equity	2.2	n.m.	n.m.	0.5	1.7
Interest cover	12.2	11.3	13.5	12.5	12.8
ROE	13.9	7.5	12.2	12.3	10.8
Consensus net profit	-	-	511	557	588
UOBKH/Consensus (x)	-	-	1.00	0.98	0.98

Source: Dialog, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM1.90
Target Price	RM2.70
Upside	+62.0%
Previous TP	RM2.56

Analyst(s)

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Stock Data

GICS Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.7
Market cap (RMm)	9,423.3
Market cap (US\$m)	2,406.0
3-mth avg daily t'over (US\$m)	3.0

Price Performance (%)

52-week high/low				RM2.01/RM1.13
1mth	3mth	6mth	1yr	YTD
(3.5)	(5.6)	(5.6)	(11.2)	(0.6)

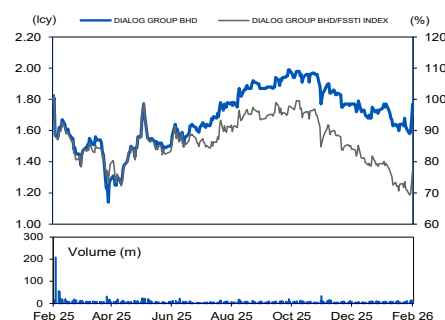
Major Shareholders

	%
EPF	21.9
Ngau Boon Keat	18.3
Azam Utama	7.6

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.96
FY26 Net Debt/Share (RM)	Na

Price Chart



Source: Bloomberg

Company Description

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipment. Dialog has joint operatorship of three storage terminals with Royal Vopak (Vopak), which is the world's largest independent storage player.

- **Upstream: Awarded the Cendramas Production Sharing Contract (PSC).** In conjunction with the launch of Petronas Malaysia Bid Round 2026 lately, the Cendramas PSC was awarded to a consortium led by Medco Energi, with Dialog Group (Dialog) and Enquest as partners. We believe Medco Energi is the main operator for this PSC, as this will also be its first Malaysian project. There are no further details, such as the stakes of the partners, as the PSC will only be formally officiated from Sep 26. We believe the timing is due to the expiry of Petrofac's PSC terms.
- **Cendramas is the former PM304 PSC operated by Petrofac.** Petrofac's Malaysian assets (including downstream unit) were being offered for sale since 2019 at rumoured valuations of US\$300m. Cendramas hosts producing fields like Cendor and West Desaru. MISC's floating, production, offloading and storage Cendor has been operating in Cendor since 2014, and East Cendor achieved first oil in 2021.
- **We think Cendramas' upstream risk to Dialog is low,** given that the PSC is already in production. Also, Petrofac had been financially embattled for years, and the PM304 PSC (regarded as a non-core asset) still remains as the only international upstream portfolio until today. We assume risk of legacy liabilities is low as Petrofac had ample time to "clean the balance sheet"
- **Cautiously expanding its upstream portfolio.** Counting in the JV upstream concession in Thailand, Dialog now has seven upstream projects. We believe Dialog still has appetite for more upstream concessions (as long as oil prices remain within consensus expectation of US\$60/bbl. We noticed Dialog is expanding cautiously. In this case, having an inactive equity in Cendramas is similar to its first two upstream projects, namely the Bayan Oilfield Service Contract (OSC) and the D35/D21/J4 PSC (Roc Oil is the main operator).

Valuation/ Recommendation

- **Maintain BUY with a higher target price of RM2.70 (from RM2.56).** Although low oil prices will continue to suppress profits from upstream operations, we see earnings recovery for downstream operations, and storage expansion catalyst is now materialising. We think Dialog's execution (on storage expansion in the medium term, and upstream in the long term) amid volatile business conditions remains paramount

Earnings Revision/ Risk

- **2026-28 earnings upgraded by 5%/4%/12%.** We reduced costs slightly (which raised EBITDA forecasts by 3%) given the absence of legacy EPCC losses, and updated our JV/associate data from the latest Annual Report.
- **Risks for the storage expansion.** We see potential competition rising in the region, ie a proposed joint development by Singapore and Indonesia in the Batam, Bintan and Karimun regions; and closer to home, the full sanction of the Johor royalty-linked Maharani Energy Gateway. The latter's masterplan envisioned over 10m cbm of storage capacity. While we are not privy to all the conditions of BP's long-term storage agreement (LTSA), we are not ruling out possibilities that BP prefers to keep its options, regardless of its commitments under the existing LTSA.

Baram Junior Cluster (BJC) Developments

- Petronas in Jan 25 approved Dialog's US\$235m field development and abandonment plan (FDAP) for its Baram Junior Cluster small field asset (BJC SFA)
- BJC hosts the Salbiah, Bario, Betty Timur, Fatimah, Hasnah and Lembuk fields.
- Between 4 Aug and 15 Oct 25, Dialog performed host tie-in activities for its Salbiah drilling platform dubbed SLDP-A to the Petronas Carigali-operated Baronina central processing platform B (BNCPP-B)
- Currently, at the Brooke Sejangkat Fabrication Yard, The Salbiah Wellhead Platform (WHP) is progressing to target sailaway by Mar 26.

Source: Upstream reports

SOTP Valuation (FY26 Valuation)

Segments	Valuation	RM/ share
Diluted shares	6.3b shares	
Core business	20x PE on net profit, ex-associates	0.77
Kertih Terminal	400,000m ³ , 30% stake, WACC 9%	0.05
Tanjung Langsat 1 and 2	740,000 m ³ , 100% stake, WACC: 9%	0.27
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	1.04
D35 PSC + Bayan OSC + POEC Thai	Assume O&G price of US\$90-100/bbl, but higher WACC of 12%	0.10
Pengerang Phase 3/ potential expansion	Expansion potential for PLNG2 and Langsat, and a small likelihood for Phase 3 expansion	0.45
(-) Net debt	Including warrant proceed	(0.10)
SOTP		2.70
Implied P/E	+1SD to 10-year average	30.0
Implied P/B		3.2x

Source: UOB Kay Hian

Environmental, Social, Governance Update

Environmental

- **Carbon (CO2) emission.** Scope 1 and 2 emissions are higher at 17,326 tCO2e in FY23 from 14,865 tCO2e in FY22. But Dialog has formulated its sustainability goals.
- **Safety (HSE).** Nil Lost Time Injury (LTI) frequency in FY23 (FY22: 0.00).

Social

- **Diversity.** 21% female representation in the management team (FY22: 19%)
- **>RM440m donations** since inception of MyKasih (set up by the founder).

Governance

- Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	2,502	2,158	2,171	2,302
EBITDA	550	674	676	778
Deprec. & amort.	329	370	397	420
EBIT	220	305	279	358
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	319	382	253
Net interest income/(expense)	(49)	(50)	(54)	(61)
Pre-tax profit	376	574	606	549
Tax	(66)	(40)	(42)	(38)
Minorities	(6)	(15)	(22)	(20)
Net profit	304	518	542	491

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	1,755	1,884	2,032
Other current assets	483	417	419	445
Total assets	8,687	8,886	9,438	10,105
ST debt	861	1,175	1,323	1,482
Other current liabilities	809	739	758	781
LT debt	861	1,175	1,323	1,482
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,052	6,377	6,672
Minority interest	502	524	520	638

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	1,187	1,342	1,260	1,383
Pre-tax profit	376	574	606	549
Tax	(80)	(40)	(42)	(42)
Deprec. & amort.	329	370	397	420
Working capital changes	273	20	15	(4)
Other operating cashflows	119	120	124	131
Investing	(479)	(800)	(800)	(753)
Capex (growth)	(118)	(250)	(250)	(250)
Investments	(359)	(300)	(300)	(253)
Others	(2)	(250)	(250)	(250)
Financing	(418)	(157)	(171)	(157)
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(49)	(50)	(54)	(61)
Others/interest paid	(293)	(357)	(367)	(347)
Net cash inflow (outflow)	120	86	129	148
Beginning cash & cash equivalent	1,572	1,669	1,755	1,884
Changes due to forex impact	(22)	0	0	0

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8

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